

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

BAY CITY HOUSING COMMISSION

Financial Statements

September 30, 2005

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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## MANAGEMENT DISCUSSION & ANALYSIS

### Bay City Housing Commission fiscal audit for the year ending September 30, 2005

The Government Accounting Standards Board (GASB) Statement #34 became applicable to the Bay City Housing Commission with its fiscal year beginning October 1, 2003. The purpose of this Statement is to provide more understandable and useful financial reports to a wider range of users than did the previous model of reporting. The Statement applies to the audited financial statements of all state and local governmental entities, including Public Housing Agencies (PHA) such as the Bay City Housing Commission.

A key requirement of GASB 34 is the Management Discussion and Analysis (MD&A). The MD&A is intended to provide the users of the financial statements with an objective, easily readable analysis of the PHA's financial activities based on currently known facts, decisions or conditions, with a discussion of the positive and negative aspects of comparisons with the prior year. The analysis responds to Paragraph 11, subparagraphs (a) through (h) of GASB 34, and is presented herein.

- (a) ***"A brief discussion of the basic financial statements, including the relationship of the statements to each other, and the significant differences in the information they provide."***

The Bay City Housing Commission utilizes the Enterprise model of reporting under GAAP (Generally Accepted Accounting Principals), aggregating its major programs into combined financial statements. Major programs are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Combined financial statements are presented first, with detailed combining program data (financial data schedule) presented in the Supplemental Data section of the audit. The Bay City Housing Commission's major programs are its Conventional Low-Rent Public Housing, the Public Housing Capital Fund, and the Section 8 New Construction programs.

Combined Balance Sheet - details the current (cash and cash-equivalent) and non-current (fixed) assets as compared to current liabilities (payables) and equity (contributed capital and retained earnings) as of the year-end (9/30/2005), or the total "worth" of the enterprise.

Combined Statement of Revenues/Expenses - the "income statement", details the revenues received through operations, grants, interest or other sources during the year, less expenses for wages, benefits, utilities, maintenance and depreciation. The difference between the two is the net profit (or loss) for the year.

Combined Statement of Cash Flows - details the flow and uses of cash from operations and capital/financing activities and adjusts the year's beginning cash balance by the net cash flow to arrive at the end of year balance, which is reported on the Combined Balance Sheet. The statement further reconciles the year end operating income (loss) to the net cash provided by operating activities.

- (b) ***"Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum,***

*governments should present the information needed to support their analysis of financial positions and results of operations required in (c), below, including these elements:*

- *Total assets, distinguishing between capital and other assets,*
- *Total liabilities, distinguishing between long-term liabilities and other liabilities,*
- *Total net assets, distinguishing among amounts invested in capital assets net of related debt, restricted amounts and unrestricted amounts,*
- *Program revenue, by major source,*
- *General revenue by major source,*
- *Total revenues,*
- *Program expenses, at a minimum by functions,*
- *Total expenses,*
- *Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers,*
- *Contributions,*
- *Special and extraordinary items,*
- *Transfers,*
- *Changes in net assets,*
- *Ending net assets*

TABLE 1

**COMPARATIVE ANALYSIS OF ASSETS, LIABILITIES & EQUITY**

ASSETS	<u>09/30/2005</u>	<u>09/30/2004</u>	<u>% +(-)</u>
Cash & cash equivalents	\$ 1,240,291.00	\$ 1,361,284.00	(9%)
Receivables - net of allowances	\$ 34,283.00	\$ 52,120.00	(34%)
Due from other funds	\$ 5,891.00	\$ 7,739.00	(24%)
Inventory - net of allowances	\$ 139,301.00	\$ 152,319.00	(9%)
Tenant Security Deposits	\$ 90,000.00	\$ 90,000.00	-
Deferred charges and other assets	\$ 81,317.00	\$ 86,664.00	(6%)
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 1,591,083.00</b>	<b>\$ 1,750,126.00</b>	<b>(9%)</b>
Fixed Assets - net of accumulated depreciation	<u>\$12,382,517.00</u>	<u>\$13,015,133.00</u>	(5%)
<b>TOTAL ASSETS</b>	<b>\$13,973,600.00</b>	<b>\$14,765,259.00</b>	<b>(5%)</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
Accounts Payable	\$ 69,214.00	\$ 458,882.00	(85%)
Due to other funds	\$ 5,891.00	\$ 7,739.00	(24%)
Intergovernmental Payables	\$ 80,290.00	\$ 80,951.00	(1%)
Accrued expenses/expenditures	\$ 11,786.00	\$ 8,766.00	34%
Accrued Wages/Payroll Taxes	\$ 35,559.00	\$ 27,466.00	29%
Tenant Security Deposits	\$ 134,721.00	\$ 124,690.00	8%
Deferred Credits and other liabilities	\$ 23,862.00	\$ 1,923.00	1141%
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 361,323.00</b>	<b>\$ 710,417.00</b>	<b>(49%)</b>
Long-term Debt/other non-current liabilities	\$ -	\$ -	-
Invested in Capital Assets, Net of Related Debt	\$12,382,517.00	\$13,015,133.00	(5%)
Unrestricted Net Assets	<u>\$ 1,229,760.00</u>	<u>\$ 1,039,709.00</u>	18%
<b>TOTAL EQUITY</b>	<b>\$13,612,277.00</b>	<b>\$14,054,842.00</b>	<b>(3%)</b>
<b>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</b>	<b>\$13,973,600.00</b>	<b>\$14,765,259.00</b>	<b>(5%)</b>

TABLE 2

**COMPARATIVE ANALYSIS OF REVENUE, EXPENSES & CHANGE IN ASSETS**

REVENUE	<u>09/30/2005</u>	<u>09/30/2004</u>	<u>% +(-)</u>
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Tenant Rental Revenue	\$ 1,562,844.00	\$ 1,510,667.00	3%
HUD Operating Grants	\$ 1,997,882.00	\$ 1,900,849.00	5%
HUD Capital Grants	\$ 437,838.00	\$ 1,111,938.00	(61%)
Intergovernmental	\$ -	\$ -	-
Interest Income	\$ 24,680.00	\$ 9,779.00	152%
Other Income	\$ 163,609.00	\$ 161,370.00	1%
<b>TOTAL REVENUE</b>	<b>\$ 4,186,853.00</b>	<b>\$ 4,694,603.00</b>	<b>(11%)</b>
<b>EXPENSES</b>			
Administration	\$ 585,909.00	\$ 612,318.00	(4%)
Tenant Services	\$ 230,996.00	\$ 224,951.00	3%
Utilities	\$ 562,314.00	\$ 473,926.00	19%
Maintenance	\$ 1,521,670.00	\$ 1,411,110.00	8%
Protective Services	\$ 348.00	\$ 354.00	(2%)
General Expenses	\$ 588,707.00	\$ 570,179.00	3%
Depreciation	\$ 1,139,474.00	\$ 1,152,466.00	(1%)
Other Expenses	\$ -	\$ -	-
<b>TOTAL CURRENT EXPENSES</b>	<b>\$ 4,629,418.00</b>	<b>\$ 4,445,304.00</b>	<b>4%</b>
Non-Current Interest Expenses	\$ -	\$ -	-
<b>TOTAL EXPENSES</b>	<b>\$ 4,629,418.00</b>	<b>\$ 4,445,304.00</b>	<b>4%</b>
 <b>REVENUE OVER (UNDER) EXPENSES</b>	 <b>\$ (442,565.00)</b>	 <b>\$ 249,299.00</b>	 <b>(278%)</b>
BEGINNING EQUITY	\$14,054,842.00	\$ 13,799,481.00	(2%)
PRIOR PERIOD ADJUSTMENT	\$ -	\$ 6,062.00	(100%)
<b>ENDING EQUITY</b>	<b>\$13,612,277.00</b>	<b>\$ 14,054,842.00</b>	<b>(3%)</b>

- (c) *"An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply state the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affect operating results for the year should be discussed."*

Assets/Liabilities (refer to Table 1 under (b) above)

A 9% decrease in Cash/Cash Equivalent was primarily due to unreimbursed utility expenses that were 19% higher than the previous year (see Chart 2). The 34% reduction in Receivables represents the results of Tenant Accounts Receivable write offs of uncollectible accounts with the amount remaining primarily Tenant Rent due in the audited year. The 9% reduction in Inventory reflects management efforts to dispose of obsolete inventory occasioned by the reorganization of stock in the new Maintenance facility at 701 First Street and to more closely match purchasing with needed replenishment. The 85% reduction in Accounts Payable represents a return to normal levels for this liability line item. The extremely high level reported for the previous year was an anomaly occasioned by the unexpected and extended illness of the Commission's Controller at year-end, preventing otherwise payable invoices from being processed. The return to normal year-end payables is the primary reason that Unrestricted Assets increased by 18%.

Revenue/Expenses (refer to Table 2 under (b) above)

While all revenue accounts, with the exception of the HUD Capital Grant,

increased over the previous year, the 61% reduction in that account was the sole reason for an 11% reduction in total revenues for the year. The reduction of the Capital Grant amount does not reflect the amount of annual Capital Funds allocated to the Commission, only the amount of those obligated allocations that were actually requisitioned and received during the year. The large difference from the previous year is due to the lengthy process that has been undertaken by the Commission to seek HUD approval for debt financing that will use Capital Funds as the sole collateral and debt-service resource (see discussion under (f) following). The healthy 152 % increase in Interest Income is a reflection of the overall national economy improvement and commensurate rate increases, as the Commission has made no other changes in its investment portfolio.

On the expense side the account suffering the largest increase was Utilities at 19%. While utilities are still being funded on a 3-year rolling average basis, there is no longer any year-end adjustment for expenses that are either over or under those budgeted for at the beginning year and highly dependent on factors outside the control of the Commission, primarily climate and rates. While actual consumption did vary by a significant amount over the previous year, significant increases in commodity charges, especially natural gas and sewer rates, resulted in increased expenditures.

The reduced Capital Fund and increased Utility expense resulted in an operating loss of \$442,565. However, utilizing the same criteria used by HUD under the Financial Assessment Subsystem (FASS) of the Public Housing Assessment System (PHAS) for the measure of net income, which does not consider either the Capital Fund or depreciation, net income contributed solely by operations was \$259,071. The Commission's overall FASS score for the fiscal year was 28 of 30 possible points (93%). The overall PHAS score for the fiscal year was 89 of 100 possible points.

- (d) ***"An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future uses."***

The Bay City Housing Commission does not have multiple funds. All programs as discussed herein are contained within one General Fund with subsidiary ledgers maintained for separate program activities (Low Rent, Capital Fund and Section 8 New Construction). With the beginning of fiscal year 2007 (October 1, 2006) HUD has mandated a conversion to Project Based Budgeting and Accounting, which will expand these subsidiary ledgers on a cost center basis, one for each property and one for a central office cost center.

- (e) ***"An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity."***

This analysis is not required under the Enterprise model where the primary function of the entity is a business-type activity.

- (f) ***"A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services."***

# CAPITAL ASSETS AT YEAR-END

	9/30/2005	9/30/2004
Land	\$1,798,466	\$1,798,466
Buildings	\$11,224,223	\$11,224,223
Furniture and Equipment	\$2,643,052	\$2,559,177
Leasehold Improvements	\$13,525,673	\$12,645,501
Construction in Progress	\$840,536	\$1,297,725
Accumulated Depreciation	<u>(\$17,649,433)</u>	<u>(\$16,509,959)</u>
TOTALS	\$12,382,517	\$13,015,133

At September 30, 2005 the Bay City Housing Commission had \$12,382,517 invested in a broad range of capital assets, including land, buildings, and furniture and equipment, a decrease of \$632,616 (5%) from the prior year. Leasehold improvements increased by \$880,172 (7%) while Construction in Progress decreased by \$457,189 (4%) from the prior year, reflective of the interruption in the Housing Commission's planned efforts to maintain, enhance and improve its facilities while debt financing options are explored.

Capital Improvements made to the Public Housing inventory are accomplished through grant funding provided by HUD under the Capital Fund Program (CFP). The CFP and its predecessor programs have been separately authorized and funded by Congress since the early '90s, providing a stable and formula-derived annual allocation to PHA's specifically for these purposes. Capital Improvements made to the Section 8 New Construction inventory (Maplewood Manor) are self-funded by the Housing Commission utilizing surplus Operating Income.

No debt has currently been issued for any of these improvements but is being explored. See discussion following.

## DEBT

The only previous outstanding debt obligation of the Bay City Housing Commission (payments on the City of Bay City's General Obligation Bond issued for the construction of Maplewood Manor) was discharged in 2003. No current debt, either long or short-term, encumbers the Housing Commission presently.

However, in 2004 the Housing Commission began participation in a Michigan State Housing Development Authority (MSHDA) sponsored debt program for capital improvements in its Public Housing inventory. Originally conceived as a state bond issue to raise funds to allow the Housing Commission to accelerate planned improvements over what could be accomplished with the current stream of funding, and to be repaid through the use of future annual CFP allocations, the program has since evolved into a more conventional loan program. At fiscal year end, a pool of 8 Housing Commissions, working in conjunction with MSHDA, were in the process of developing Requests for Proposal for financial and legal services relative to effectuating loans for this purpose.

Authorized by the Quality Housing and Work Responsibility Act of 1998 (QHWRA), debt financing has become a more widely used tool for Public Housing Agencies to be able to accomplish capital improvements in a timelier manner. An early 2006 selection of a financial and legal services provider was accomplished and the Commission is anticipating a mid-year date for the submission of loan documents to HUD for approval.

(g) *"A discussion by governments that use the modified approach to report some or all of their infrastructure assets..."*

Not applicable to business-type activities under the Enterprise model.



- (h) *"A description of currently known facts, decisions or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets)."*

#### PUBLIC HOUSING

Operating Fund: The Bay City Housing Commission is primarily dependent on HUD for the funding of operational expenses not covered by operational revenue that is limited by federal statute (maximum rent charged can be no more than 30% of a family's adjusted household income). It is therefore more affected by federal appropriations than by local economic conditions.

Historically, the Housing Commission's fiscal year, coincidental with the Federal fiscal year (FFY), resulted in funding appropriated in any given Federal fiscal year not actually being available to us until our following fiscal year. In other words, appropriations approved for the Federal fiscal year beginning October 1, 2004 were not actually available for our use until October 1, 2005 due to the lengthy process housing agencies are required to go through to calculate their eligibility for subsidy, have HUD review it and determine pro-ration amounts and actually transfer the funds. This is the same for all housing agencies and only varies by their own individual agency's fiscal year. HUD, in effect, was funding all agencies on a local fiscal year basis after federal appropriations had been determined.

Beginning with FFY 2006, HUD has modified this funding schedule and will henceforth be providing operating funds to all housing agencies on a January calendar year basis. In the transition year, the Housing Commission will be receiving 3 months of FFY 2005 funding (Oct/Nov/Dec) and then will receive a full 12 months of FFY 2006 funding beginning in January, even though only 9 months remain in our own fiscal year. Complicating this scenario is the issue of the timing of determining total need verses approved appropriations, which may not be completed by HUD until mid-2006. Until that time, HUD has made available to housing agencies 6 months of funding (Jan-June) based on 92% of the agency's 2005 eligibility, which was the proration factor applicable to 2005 funding. Once the final 2006 proration is determined, agency's funding will be then adjusted for the remaining 6 months in 2006 to reflect either over or under payment amounts they received in the first 6 months based on the estimate. As of the date of this analysis (February 2006) we have no definitive information on which to forecast an estimate of our final funding amount. Initial federal appropriations for 2006 would have been sufficient to fund housing agencies at about the same level as 2005 (92% of eligibility) but a subsequent 1% across the board budget cutting action by Congress in December makes that appear unrealistic, some estimates by industry sources being as low as 85% of eligibility.

FFY 2006 is also the last year under which HUD will utilize the current funding formula methodology. Long of concern to Congress, the current formula has resulted in inequities in funding and poor projections by HUD of actual need from year to year. QHWRRA required HUD to establish a new funding mechanism which was ultimately based upon a negotiated rule making process supported by a controversial cost study conducted by Harvard University. The result of this effort is a shift to an Asset Management basis of operation, emulating private-sector property management and funded on an individual property level basis as opposed to an aggregated agency basis as has been the history for the last 30+ years. FFY 2007 will see a mandated shift to Project Based Budgeting and Accounting and the first blush of property level funding using a Weighted Average Property Expense Level (WAPEL) for housing agencies. FFY 2008 will see full implementation of funding based on an individual Property Expense Level (PEL) with full compliance with the provisions of Asset Management required by FFY 2011, implementing regulations yet to issued by HUD.

In November 2005, the housing commission was provided with its first estimated WAPEL for review. With many factors still unknown at the present time, such as federal appropriations for 2007, the impact of this funding methodology remains unclear. Management can only continue to attempt to operate its programs in the most efficient manner possible, standing ready to make whatever adjustments may be needed to balance expenses against revenue.

Capital Fund: Also funded through the federal budget process, the Capital Fund Program (CFP) and its predecessor programs have been, since their inception, historically stable programs. However, the CFP has also been experiencing pressures resulting from the national priorities debate and is expected to receive a significant cut in the 2006 federal budget on top of a reduction made in 2005. This may provides more incentive for the Housing Commission's planned participation in the MSHDA-sponsored debt-financing program being undertaken in the current year. The Housing Commission has delayed obligation of its 2004 CFP funds which had been originally planned for the initial debt service on the bond repayment schedule. However, the debt-financing effort saw a shake-up in participating housing commission and a shift in direction to a direct lending program, which has delayed the entire process. Given the timing of the application process and HUD's lengthy approval time, it has become evident that 2004 funds may be in jeopardy if alternate provisions are not made. At the next Agency Plan annual submission the Commission will be amending its CFP budgets to designate 2005 funds for initial debt-service so as to allow us to appropriately obligate 2004 by September and not risk their recapture.

A loan amount of \$3 million dollars is anticipated for a 20-year term. Debt-service will be approximately 1/3<sup>rd</sup> of the 2005 CFP allocation, the maximum amount approvable by HUD.

#### SECTION 8 NEW CONSTRUCTION (Maplewood Manor)

Funding provided for this HUD Multifamily program is in the form of a Housing Assistance Payment Contract (HAP) that guarantees a certain 'contract rent', HUD paying the owner the difference between the income-based rents it receives from tenants and that contract rent. The initial HAP Contract with HUD for Maplewood Manor was for a period of 25 years with contract rents set high enough to cover both initial operations and debt service on the municipal bond that was issued to fund its construction. At the end of the initial HAP Contract in 2004 the Housing Commission applied for and received a 5-year renewal of the HAP. Annually, the Housing Commission is eligible to apply for either a budget-based rent increase or an increase based on a HUD-published

Operating Cost Adjustment Factor (OCAF).

The HAP Contract is designed to allow owners of Multifamily properties to fund their own Replacement Reserves for needed improvements and betterments required over the life of the facility and, such being the case, these developments are not otherwise eligible to participate in the Capital Fund Program available to Public Housing properties. The Housing Commission has been implementing planned improvements utilizing this source and will continue to do so based upon its 20-year Capital Needs Assessment.

CONTACTING THE HOUSING COMMISSION'S MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Housing Commission's finances and to show the Housing Commission's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Douglas A. Rise, Executive Director, at the Bay City Housing Commission, 1200 N. Madison Avenue, Bay City, Michigan 48708, telephone number (989) 892-9581.

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

Bay City Housing Commission  
1200 N Madison  
Bay City, Michigan 48708

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the Bay City Housing Commission as of and for the year ended September 30, 2005. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bay City Housing Commission as of September 30, 2005, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Required Supplemental Information**

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### **Combining Financial Statements**

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

January 10, 2006

BAY CITY HOUSING COMMISSION  
Statement of Net Assets  
September 30, 2005

**ASSETS**

**C-3017**

CURRENT ASSETS

Cash & Cash Equivalents	\$ 1,330,291	
Accounts Receivable (Net)	26,562	
Accounts Receivable- Other	7,721	
Prepaid Expenses & Inventory (Net)	<u>220,618</u>	
Total Current Assets		\$ 1,585,192

NON CURRENT ASSETS

Land	\$ 1,798,466	
Buildings	11,224,223	
Furniture, Equipment- Dwellings	2,097,621	
Furniture, Equipment- Administrative	545,431	
Leasehold Improvements	14,366,209	
Accumulated Depreciation	<u>(17,649,433)</u>	
Total Non Current Assets		<u>12,382,517</u>

<u>TOTAL ASSETS</u>	\$ <u>13,967,709</u>
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BAY CITY HOUSING COMMISSION  
Statement of Net Assets  
September 30, 2005

**LIABILITIES**

**C-3017**

**CURRENT LIABILITIES**

Accounts Payable	\$	69,214	
Accrued Liabilities		35,559	
Accounts Payable- HUD		240	
Accounts Payable- Other Government		80,290	
Compensated Absences		11,786	
Tenants Security Deposit		134,721	
Deferred Revenue		<u>23,622</u>	
<u>Total Liabilities</u>			\$ <u>355,432</u>

**Net Assets:**

Investment in Fixed Assets			
net of Related Debt	\$	12,382,517	
Retained Earnings		<u>1,229,760</u>	
<u>Total Net Assets</u>			<u>13,612,277</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

BAY CITY HOUSING COMMISSION  
Combined Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended September 30, 2005

	<u>Business Type Activities</u>
<u>OPERATING REVENUE</u>	
Tenant Rental Revenue	\$ 1,562,844
Tenant Revenue- Other	49,459
HUD Grants	2,435,720
Interest Income	24,680
Other Income	<u>110,340</u>
 <u>Total Operating Revenue</u>	 \$ 4,183,043
 <u>OPERATING EXPENSES</u>	
Administrative	\$ 585,909
Tenant Services	230,996
Utility Expenses	562,314
Ordinary Maintenance	1,521,670
Protective Services	348
General Expenses	<u>588,707</u>
 <u>Total Operating Expenses</u>	 <u>3,489,944</u>
 <u>Operating Income (Loss)</u>	 \$ 693,099
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Gain on the Sale of Fixed Assets	\$ 3,810
Depreciation Expenses	<u>(1,139,474)</u>
 <u>Total Nonoperating (Expenses)</u>	 <u>(1,135,664)</u>
 <u>Change in Net Assets</u>	 \$ (442,565)
 Total Net Assets- Beginning	 <u>14,054,842</u>
 Total Net Assets- Ending	 <u>\$ 13,612,277</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.



BAY CITY HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended September 30, 2005

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,606,450
Payments to Suppliers	(2,592,699)
Payments to Employees	(1,202,436)
HUD Grants	2,435,720
Other Receipts (Payments)	<u>138,830</u>
Net Cash Provided (Used) by Operating Activities	\$ 385,865

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(506,858)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (120,993)
Cash Balance- Beginning of Year	<u>1,451,284</u>
Cash Balance- End of Year	\$ <u>1,330,291</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (442,565)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,139,474
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	17,837
Prepaid Expenses	18,365
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(389,668)
Accrued Liabilities	8,093
Accounts Payable-Other Governments	(661)
Accrued Compensated Absences	3,020
Security Deposits	10,030
Deferred Revenue	<u>21,940</u>
Net Cash Provided by Operating Activities	\$ <u>385,865</u>

The Accompanying Notes are an Integral part of the Financial Statements

BAY CITY HOUSING COMMISSION  
Notes to Financial Statements  
September 30, 2005

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Bay City Housing Commission, Bay City, Michigan, (Commission) was created by ordinance of the city of Bay City. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 24-2,3,4,5, 6, & 7 Low rent program	562 units
MI 28-8023007 New Construction	161 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### Assets, Liabilities, and Net Assets-

#### Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

#### Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

## Notes to Financial Statements- continued

### Inventory

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

### Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the individual funds statements in the Financial Data Statements, however, are eliminated on the combined Statement of Net Assets.

### Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15 years
Equipment	3-10 years

### Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

## Note 2: Cash and Investments.

The composition of cash and investments are as follows:

### Cash:

General Fund Checking Accounts	\$ 506,922
Petty Cash	300
Savings Accounts	90,000
Cash Equivalents, below	<u>733,069</u>
Financial Statement Total	<u>\$ 1,330,291</u>

Notes to Financial Statements- continue

Investments:

Certificates of Deposit	\$ 200,000
Savings Accounts	533,069
Cash Equivalents, reclassified above	<u>(733,069)</u>
Financial Statement Total	\$ <u>0</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 506,932	\$	\$	\$ 506,932	\$ 506,932
Petty Cash	300			300	300
Money market	533,059			533,059	533,059
C/D's	<u>290,000</u>			<u>290,000</u>	<u>290,000</u>
Total Cash	\$ <u>1,330,291</u>	\$ <u></u>	\$ <u></u>	\$ <u>1,330,291</u>	\$ <u>1,330,291</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Accounts Receivable

Tenants accounts receivable consists of the following:

Accounts Receivable- Tenants	\$ 35,964
Allowance for Doubtful Accounts	<u>(9,402)</u>
Net Accounts Receivable-tenants	\$ <u>26,562</u>

Accounts Receivable- Other

Accounts Receivable- HUD	5,891
Accounts Receivable- Miscellaneous	<u>1,830</u>
Financial Statement Total	\$ <u>7,721</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ 81,317
Inventories	142,183
Allowance for Obsolescence	<u>(2,882)</u>
Financial Statement Total	\$ <u>220,618</u>

Notes to Financial Statements- continue

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 1,798,466	\$	\$	\$ 1,798,466
Buildings	11,224,223			11,224,223
Furniture & Equipment-Dwellings	1,209,796	887,825		2,097,621
Furniture & Equipment-Admin	1,349,381		803,950	545,431
Leasehold Improvements	<u>13,943,226</u>	<u>422,983</u>		<u>14,366,209</u>
	\$29,525,092	\$1,310,808	\$ 803,950	\$30,031,950
Less Accumulated Depreciation	<u>16,509,959</u>	<u>1,139,474</u>		<u>17,649,433</u>
	<u>\$13,015,133</u>	<u>\$ 171,334</u>	<u>\$ 803,950</u>	<u>\$12,382,517</u>

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits \$ 35,559

Note 7: Accounts Payable- Other Governments

Accounts Payable other governments consists of the following:

Accounts Payable- Bay City \$ 80,290

Note 8: Retirement.

The Commission is enrolled in a retirement and a deferred compensation plan, under code section 457 and section 401 of the Internal Revenue Code. The plan provides for both employee and employer contributions, and offers several alternative plans to participate in; the eligibility rules and plan assets are available under a separate report provided by the Retirement Trust. In addition to the above, the Commission has a defined benefit plan which has been frozen to current employee participation only, and not available to future employee participation.

The statistical data for that plan is as follows:

**GASB 25 and 27 Information**

The following information has been prepared to provide the information necessary to comply with GASB Statements N. 25 & 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

Notes to Financial Statements, continued

**GASB 25 Information (as of 12/31/2004)**

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 2,609,457
Terminated employees (vested former members) not yet receiving benefits	0
Non-vested terminated employees (pending refunds of accumulated member contributions)	0

Current employees-

Accumulated employee contributions including allocated investment income	80,069
Employer financed	<u>2,538,636</u>

Total Actuarial Accrued Liability \$ 5,236,162

Net assets available for benefits at actuarial value 4,018,022

(Market Value is \$ 3,922,068)

Underfunded (Overfunded) actuarial accrued liability \$ 1,218,140

**GASB 27 Information (as of 12/31/2004)**

Fiscal year beginning October 1, 2006

Annual Required Contribution (ARC) \$ 201,3725

Amortization Factor Used - Underfunded Liabilities (24 years) 0.061616

Amortization Factor Used - Underfunded Liabilities (30 years) 0.085453

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ Replacement
General Liability	2,000,000
Automobile Liability	500,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

Notes to Financial Statements- continued

Note 10:Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 11:Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).



# Bay City Housing Commission

30-Sep-05

MI024

Combining Balance Sheet		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>ASSETS:</b>				
	<b>CURRENT ASSETS:</b>				
	Cash:				
111	Cash - unrestricted	789,332	450,959	-	1,240,291
112	Cash - restricted - modernization and developmen	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits	70,000	20,000		90,000
100	Total cash	859,332	470,959	-	1,330,291
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	-	5,891	5,891
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	1,830	-		1,830
126	Accounts receivable- tenants - dwelling rents	34,184	1,780		35,964
126.1	Allowance for doubtful accounts - dwelling rents	(9,402)	-		(9,402)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- curren				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful account	26,612	1,780	5,891	34,283
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	70,522	10,795		81,317
143	Inventories	127,862	14,321		142,183
143.1	Allowance for obsolete inventories	(2,614)	(268)		(2,882)
144	Interprogram - due from	5,891	-	-	5,891
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	1,087,605	497,587	5,891	1,591,083
	<b>NONCURRENT ASSETS:</b>				
	Fixed assets:				
161	Land	1,539,701	258,765		1,798,466
162	Buildings	7,533,845	3,690,378		11,224,223
163	Furniture, equipment & machinery - dwellings	1,343,307	650,055	104,259	2,097,621
164	Furniture, equipment & machinery - administrati	417,218	124,372	3,841	545,431
165	Leasehold improvements	10,947,809	2,577,864	840,536	14,366,209
166	Accumulated depreciation	(13,269,408)	(4,380,025)	-	(17,649,433)
160	Total fixed assets, net of accumulated depreciator	8,512,472	2,921,409	948,636	12,382,517
171	Notes and mortgages receivable - non-curren				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	8,512,472	2,921,409	948,636	12,382,517
190	TOTAL ASSETS	9,600,077	3,418,996	954,527	13,973,600

	<b>LIABILITIES AND EQUITY:</b>				
	<b>LIABILITIES:</b>				
	<b>CURRENT LIABILITIES</b>				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	49,702	19,512		69,214
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	27,995	7,564		35,559
322	Accrued compensated absences	9,193	2,593		11,786
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs	240	-		240
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	80,290	-	-	80,290
341	Tenant security deposits	103,320	31,401		134,721
342	Deferred revenues	22,920	702		23,622
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	-			-
347	Inter-program - due to	-	-	5,891	5,891
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>293,660</b>	<b>61,772</b>	<b>5,891</b>	<b>361,323</b>
	<b>NONCURRENT LIABILITIES:</b>				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	-			-
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
300	<b>TOTAL LIABILITIES</b>	<b>293,660</b>	<b>61,772</b>	<b>5,891</b>	<b>361,323</b>
	<b>EQUITY:</b>				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	8,512,472	2,921,409	948,636	12,382,517
	Reserved fund balance:				-
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	793,945	435,815		1,229,760
513	<b>TOTAL EQUITY</b>	<b>9,306,417</b>	<b>3,357,224</b>	<b>948,636</b>	<b>13,612,277</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>9,600,077</b>	<b>3,418,996</b>	<b>954,527</b>	<b>13,973,600</b>

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# Bay City Housing Commission

30-Sep-05

MI024

Combining Income Statement		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	<b>REVENUE:</b>	-	-		
703	Net tenant rental revenue	1,141,561	421,283		1,562,844
704	Tenant revenue - other	43,584	5,875		49,459
705	Total tenant revenue	1,185,145	427,158	-	1,612,303
706	HUD PHA grants	1,090,093	712,355	633,272	2,435,720
708	Other government grants				-
711	Investment income - unrestricted	18,959	5,721	-	24,680
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	26,290	84,050	-	110,340
716	Gain or loss on the sale of fixed assets	3,810			3,810
720	Investment income - restrictec				-
700	<b>TOTAL REVENUE</b>	2,324,297	1,229,284	633,272	4,186,853
	<b>EXPENSES:</b>				
	Administrative				
911	Administrative salaries	216,952	76,024	64,474	357,450
912	Auditing fees	3,030	855		3,885
913	Outside management fees				-
914	Compensated absences	2,355	665		3,020
915	Employee benefit contributions- administrative	94,161	32,701	-	126,862
916	Other operating- administrative	73,702	20,990	-	94,692
	Tenant services				
921	Tenant services - salaries	56,609	30,802		87,411
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services	23,774	13,385		37,159
924	Tenant services - other	10,211	33,880	62,335	106,426
	Utilities				
931	Water	109,112	49,581		158,693
932	Electricity	117,373	74,660		192,033
933	Gas	108,585	94,817		203,402
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	8,063	123		8,186
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	588,193	169,382		757,575
942	Ordinary maintenance and operations - materials & other	106,776	21,856	-	128,632
943	Ordinary maintenance and operations - contract costs	155,954	72,048	68,625	296,627
945	Employee benefit contributions- ordinary maintenance	274,005	64,831		338,836
	Protective services				

952	Protective services- other contract costs	348			348
953	Protective services - other				-
955	Employee benefit contributions- protective services		-		-
	General expenses				
961	Insurance premiums	148,969	40,027		188,996
962	Other General Expenses	132,455	190,299		322,754
963	Payments in lieu of taxes	67,841			67,841
964	Bad debt - tenant rents	8,839	277		9,116
965	Bad debt- mortgages				-
966	Bad debt - other				-
967	Interest expense				-
968	Severance expense	-			-
969	<b>TOTAL OPERATING EXPENSES</b>	2,307,307	987,203	195,434	3,489,944
970	<b>EXCESS OPERATING REVENUE OVER OPERATING EXPENSES</b>	16,990	242,081	437,838	696,909
971	Extraordinary maintenance	-			-
972	Casualty losses - non-capitalized	-			-
973	Housing assistance payments		-	-	-
974	Depreciation expense	879,404	260,070	-	1,139,474
975	Fraud losses				-
976	Capital outlays- governmental funds	-			-
977	Debt principal payment- governmental funds				-
978	Dwelling units rent expense				-
900	<b>TOTAL EXPENSES</b>	3,186,711	1,247,273	195,434	4,629,418
	<b>OTHER FINANCING SOURCES (USES)</b>				
1001	Operating transfers in	-			-
1002	Operating transfers out	-		-	-
1003	Operating transfers from/to primary government			-	-
1004	Operating transfers from/to component unit				-
1005	Proceeds from notes, loans and bonds				-
1006	Proceeds from property sales				-
1010	<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	-	-	-
1000	<b>EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (</b>	(862,414)	(17,989)	437,838	(442,565)

BAY CITY HOUSING COMMISSION  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2005

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3017 Operating Subsidies	\$ <u>1,090,093</u>
* <u>CFDA 14.182 Housing Assistance Programs</u>	
C-3017 Section 8 New Construction	\$ <u>712,355</u>
* <u>CFDA 14.872 Capital Projects Grants</u>	
C-3017 Capital Projects Funds	\$ <u>633,272</u>
	\$ <u>2,435,720</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ Replacement
General Liability	2,000,000
Automobile Liability	500,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

\*Connotes Major Program Category

BAY CITY HOUSING COMMISSION  
Status of Prior Audit Findings  
September 30, 2005

The prior audit of the Bay City Housing Commission for the period ended September 30, 2004, contained two audit findings; the corrective action is as follows:

- 1) Tenant Accounting Discrepancies- The Commission is using the up-front verification process; third party verification in the current year does not appear to be a problem
- 2) Maintenance Department Discrepancies- The issues surrounding the maintenance department supervisor have been satisfactorily resolved.

BAY CITY HOUSING COMMISSION  
Report on Compliance Applicable with Requirements to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133  
September 30, 2005

Compliance

I have audited the compliance of Bay City Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2005. Bay City Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bay City Housing Commission's management. My responsibility is to express an opinion on Bay City Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay City Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Bay City Housing Commission's compliance with those requirements.

In my opinion, Bay City Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control over Compliance

The management of Bay City Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Bay City Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 10, 2006



BAY CITY HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards*  
September 30, 2005

I have audited the financial statements of Bay City Housing Commission, Bay City, Michigan, as of and for the year ended September 30, 2005, and have issued my report thereon dated January 10, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bay City Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Bay City Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Bay City Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 10, 2006

BAY CITY HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
September 30, 2005

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Section 8 New Construction	X	
Capital Projects Funds	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	<u>        </u> Yes	<u>  X  </u> No
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Reportable condition(s) noted	<u>        </u> Yes	<u>  X  </u> No
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Non Compliance material to financial statements noted	<u>        </u> Yes	<u>  X  </u> No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	<u>        </u> Yes	<u>  X  </u> No
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Reportable condition(s) noted	<u>        </u> Yes	<u>  x  </u> No
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Non Compliance material to financial statements noted	<u>        </u> Yes	<u>  X  </u> No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	N/A
Section 8 New Construction	Yes	None	N/A
Capital Fund Project	Yes	None	N/A